

Introduction to Demand

- In the United States, the forces of supply and demand work together to set prices.
- **Demand** is the desire, willingness, and ability to buy a good or service.
 - Supply can refer to one individual consumer or to the total demand of all consumers in the market (**market demand**).
- Based on that definition, which of the following do you have a demand for?



Introduction to Demand

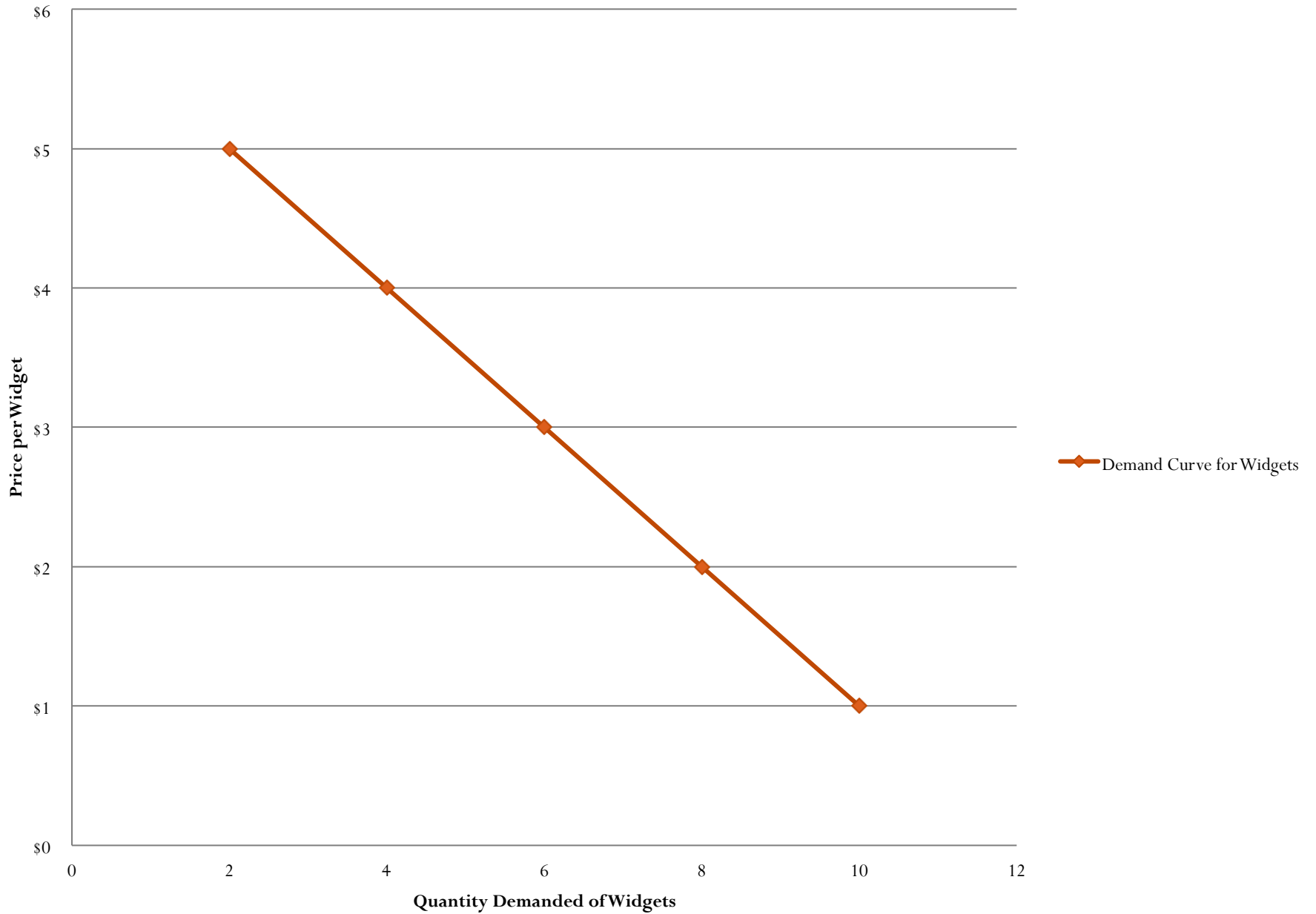
- A **demand schedule** is a table that lists the various quantities of a product or service that someone is willing to buy over a range of possible prices.

Price per Greebes(\$)	Quantity Demanded of Greebes per day
\$5	2
\$4	4
\$3	6
\$2	8
\$1	10

Introduction to Demand

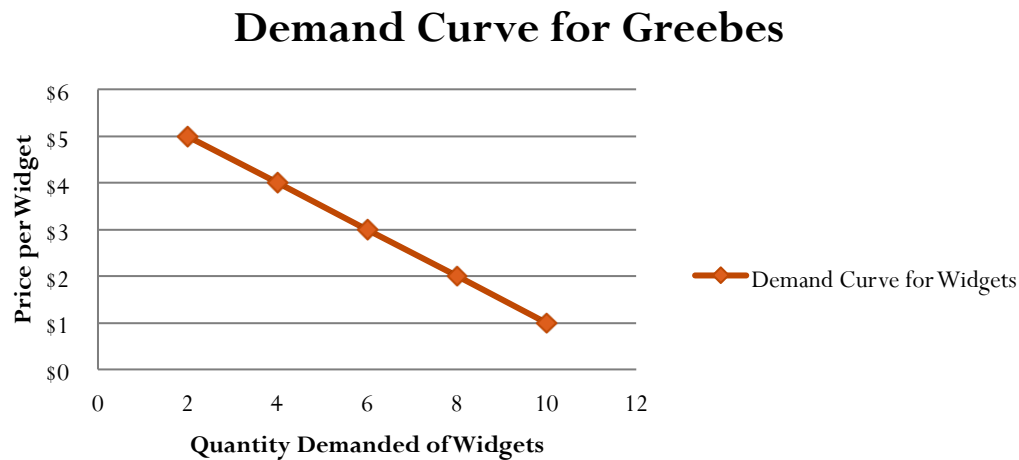
- A demand schedule can be shown as points on a graph.
 - The graph lists prices on the **vertical axis** and quantities demanded on the **horizontal axis**.
 - Each point on the graph shows how many units of the product or service an individual will buy at a particular price.
 - The **demand curve** is the line that connects these points.

Demand Curve for Greebes



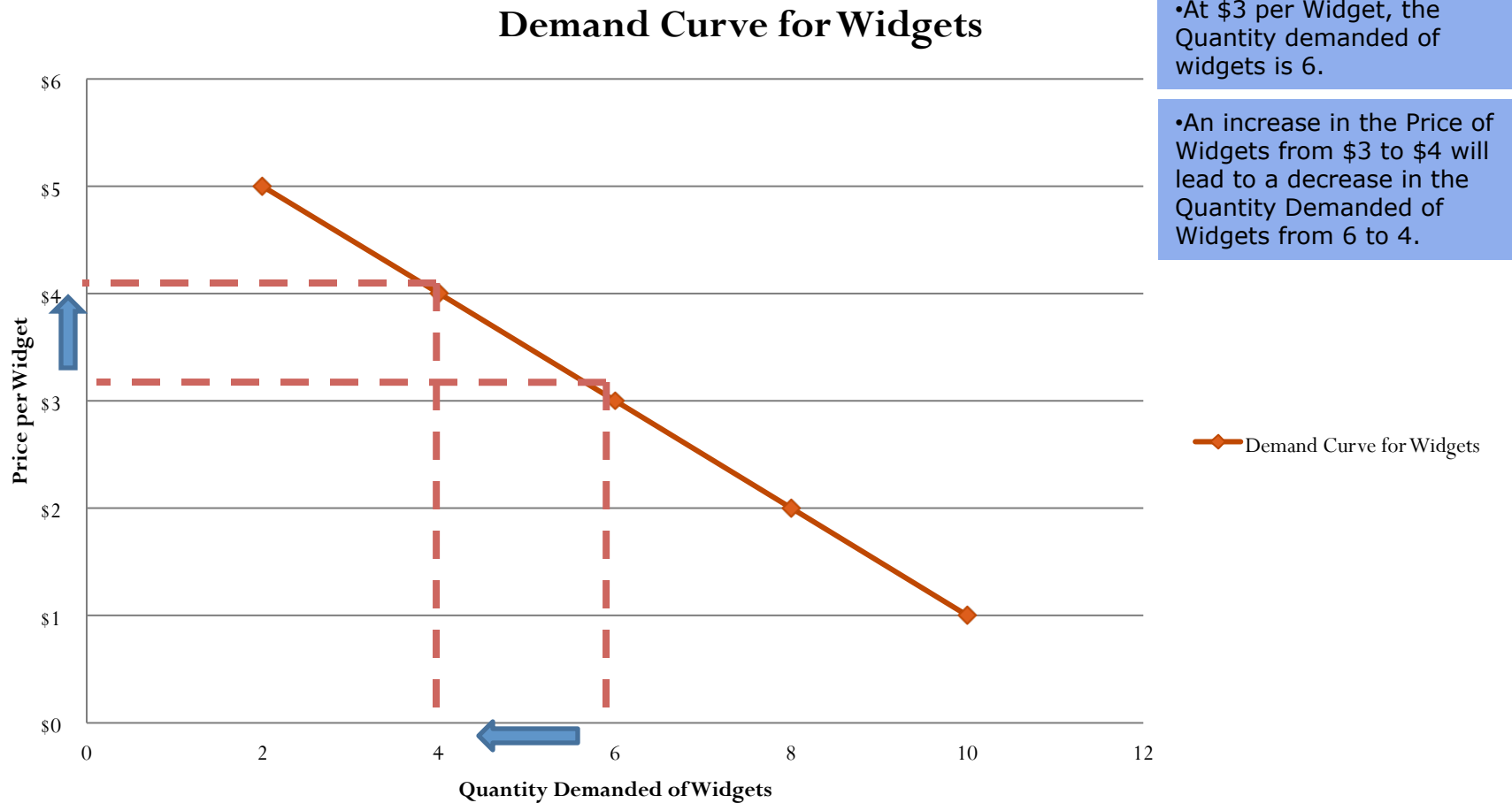
Introduction to Demand

- The demand curve slopes downward.
 - This shows that people are normally willing to buy less of a product at a high price and more at a low price.
 - According to the **law of demand**, quantity demanded and price move in opposite directions.



Changes in Demand





- Change in the quantity demanded due to a price change occurs **ALONG** the demand curve



Changes in Demand

- Demand Curves can also shift in response to the following factors:
 - **Buyers** (# of): changes in the number of consumers
 - **Income**: changes in consumers' income
 - **Tastes**: changes in preference or popularity of product/service
 - **Expectations**: changes in what consumers expect to happen in the future
 - **Related goods**: compliments and substitutes
- **BITER**: factors that shift the demand curve

Changes in Demand

- Prices of related goods affect on demand
 - **Substitute goods** → a substitute is a product that can be used in the place of another.
 - The price of the substitute good and demand for the other good are directly related

 - For example, Coke Price Pepsi Demand
 - **Complementary goods** → a compliment is a good that goes well with another good.
 - When goods are complements, there is an inverse relationship between the price of one and the demand for the other

 - For example, Peanut Butter Jam Demand

Complement vs. substitute goods

Complements (coffee and doughnuts)

	<i>Reducing the price of one...</i>		<i>increases the demand for the other.</i>
	<i>Increasing the price of one...</i>		<i>reduces the demand for the other.</i>

Substitutes (coffee and tea)

	<i>Increasing the price of one...</i>		<i>increases the demand for the other.</i>
	<i>Reducing the price of one...</i>		<i>reduces the demand for the other.</i>

Changes in Demand

Changes in any of the factors **other than price** causes the demand curve to shift either:

- Decrease in Demand shifts to the **Left** (Less demanded at each price)

OR

- Increase in Demand shifts to the **Right** (More demanded at each price)

Consumer Surplus

- The difference between the amount a person is willing and able to pay and the actual price paid for
- Consumers are be

